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SENSITIVE  
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STATE FOR WHA/EPSC AND EEB/TRA - TROBL, YVLIMAYE-DAVIS  
STATE PASS USTR FOR KATE DUCKWORTH  
FAA FOR BAHUMADA, CTFRANCESCHI, KBERQUIST  
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SOUTHCOM FOR POLAD  
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SUBJECT: AZUL AIRLINES "TAKES-OFF"

SENSITIVE BUT UNCLASSIFIED--PLEASE PROTECT ACCORDINGLY

REF: A. SAO PAULO 0471; B. SAO PAULO 0619

¶1. (SBU) SUMMARY: Consulate officers attended the inaugural demonstration flight of new low-cost Brazilian airline, Azul Airlines, on December 2. While Azul had originally wanted its hub to be from the local Santos Dumont airport in Rio de Janeiro, they will be operating from the Campinas airport approximately 60 miles from Sao Paulo. With only two functioning major airlines in the country, Azul's anticipated entry has already lead to a precipitous decline in domestic airfares with Gol Airlines immediately slashing its prices online, before the start-up company had even officially launched its website. Even with the current complication over locating Azul's hub, hopes are that the entry of this airline may finally signal the beginning of low-cost domestic travel within Brazil. END SUMMARY.

¶2. (SBU) On December 2, two Consulate officers participated in the inaugural demonstration flight of Azul Airlines. The flight originated from and terminated at Viracopos International Airport (VCP) in Campinas. ConOffs reported that the airplane, a domestic Embraer regional jet (currently all planes envisioned for this fleet are Brazilian made Embraer jets), was comfortable and the service was above average. The flight around the city lasted approximately 45 minutes and provided company executives with an opportunity to explain to local press the business strategy and goals of Azul.

¶3. (SBU) The day after the Azul Airlines inaugural launch, competitor Gol Airlines responded with a series of price cuts along the planned routes of Azul Airlines. Azul CEO David Neeleman has

stated publically that it his goal to provide one-way air travel between Sao Paulo and Salvador for less than US\$90, the price of "a bus ticket and a roasted chicken." In response, Gol's website now markets plane tickets as costing less than a bus ticket, including a ticket to Salvador for US\$85. This has touched off media speculation of an airline price war in Brazil.

¶4. (SBU) Janio Quadros Neto, the Government and Strategy Advisor to Azul Airlines (strictly protect), told EconOff that he does not think Gol Airlines could win a price war against Azul Airlines. He said that Gol is completely dependent on Brazilian sources of financing, whereas Azul has better access to international financing and thus better liquidity. Quadros pointed to what he called Gol's "mistake" in acquiring struggling airline Varig in 2007 and media reports of a potential delisting of Gol from the New York Stock Exchange. In a protracted price war, he believes that Gol's credit would run out before Azul's would. Despite the financial crisis, Azul does not have problems accessing credit and is on schedule to launch regular commercial flights on December 15.

¶5. (SBU) Airport congestion and other barriers have prevented Azul from developing its preferred hub structure. Azul will use Viracopos Airport (VCP) in Campinas (some 60 miles from central Sao Paulo) as its hub, rather than either Santos Dumont in Rio or Congonhas in Sao Paulo. Initially Azul had petitioned to use Santos Dumont Airport (SDU) in Rio de Janeiro as its hub; however, the Governor of Rio de Janeiro has moved to block this. According to Quadros, the recent decision by the National Civilian Aviation Agency (ANAC) to privatize Rio's international airport, Galeao

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(GIG), has stoked fears in the Rio State Government that there will be a loss in traffic at GIG. Azul's other desired location, Congonhas (CGH-domestic airport in Sao Paulo), is also unavailable due to restrictions ANAC placed on increasing frequencies to the airport or redistributing frequencies from the other two airlines, TAM and GOL. Quadros characterized the GOB's involvement in Azul's launch as "a disaster." TAM and GOL on the other hand recently filed a complaint with ANAC over what the two companies see as "preferential treatment" given to Azul as it begins operations, specifically the alleged exemption ANAC has given Azul in meeting certain mandatory filing deadlines requesting domestic flight frequencies.

¶6. (SBU) COMMENT: Neeleman has already launched two successful low-cost airlines: U.S. carrier JetBlue and Canada's WestJet. If Azul Airlines gains the airport access it seeks, the company could pose a formidable challenge to TAM and Gol Airlines especially along routes between second tier cities in Brazil. However, Gol's recent slashing of its prices indicates that it intends to compete directly with Azul for budget travelers. Gol did report a profit last quarter and, according to its CEO, Constantino de Oliveira, Jr., expects to turn a profit in 2009. Despite Quadros' confidence that there will not be a price war, airfare prices in Brazil have fallen significantly just before the holiday season, suggesting that the airlines here do intend to compete for customers. The addition of a third major domestic airline with prices lower than those of a bus ticket could finally bring affordable travel to millions in the growing Brazilian middle class. END COMMENT.

¶7. (U) This cable was coordinated/cleared by Embassy Brasilia.